AXIA CORPORATION LIMITED

# Unaudited Financial Results

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

AXIA CORPORATION LIMITED


## SALIENT FEATURES

| | 6 Months Ended 31 Dec 2016 USD |
|---|---|
| Revenue | 119 528 657 |
| Operating profit | 11 154 336 |
| Profit before tax | 10 689 772 |
| Basic earnings per share (cents) | 0.74 |
| Headline earnings per share (cents) | 0.74 |
| Cash generated from operations | 7 288 379 |
| Interim dividend declared per share (cents) | 0.24 |

## CHAIRMAN'S STATEMENT AND REVIEW OF OPERATIONS

### FINANCIAL OVERVIEW

The six months under review have been an interesting challenge for the Group, characterised by depressed consumer spending in certain sectors, liquidity constraints, difficulties in securing import permits and delays in making foreign payments to suppliers of goods and services. Despite these issues, the Group has produced a good set of results by managing to secure, in most cases, a reasonable supply of goods.

During the period under review, the Group reported revenue of US$119.529 million to achieve a 14% growth on the comparative period. An operating profit of US$11.154 million and a profit before tax of US$10.690 million were recorded for the six months ended 31 December 2016 notwithstanding additional overheads incurred by the new head office structure. Basic earnings per share for the period amounted to 0.74 US cents whilst headline earnings per share at 0.74 US cents was 3% above the comparative period.

The Group has been prompted to take pre-emptive action to secure additional inventory owing to the delays in foreign payments. This has resulted in a change of its working capital profile. In addition, the increased working capital is a result of the trade receivable balances which grew markedly in the regional distribution business as well as in the furniture and electronic appliances retail operations where there was an investment in prepayments to suppliers to secure supply of inventory. The Group will continue to aggressively grow inventories to mitigate against the ever-present risks surrounding securing import permits and making foreign payments.

The Group's capital expenditure for the period totalled US$0.643 million.

Net borrowings have decreased by US$1.048 million mainly as a result of the increased cash sales in the furniture and electronic appliances retail operations.

### SUSTAINABILITY REPORTING

The Group strives to operate its business in a sustainable manner that recognises environmental and social impacts. As part of this commitment, the Group applies the Global Reporting Initiatives (GRI)'s Sustainability Reporting Guidelines and will uphold practices and values that ensure long-term business success is achieved in a sustainable manner.

### OPERATIONS

The main operating business units in the Axia Corporation Group are TV Sales & Home (TVSH), Transerv and Distribution Group Africa (DGA). TVSH is a leading furniture and electronic appliance retailer with sites located countrywide. Transerv retails automotive spares, by utilising multiple channels to service the needs of its customers. DGA's core areas of expertise lie in inbound clearing and bonded warehousing, ambient and chilled warehousing, logistics, marketing, sales and merchandising services.

#### TV Sales & Home

TV Sales & Home reported a good set of results with a large increase in units sold which grew 54% on the comparative period resulting in a 33% revenue growth. This has been spurred by growth in cash sales over the comparative period. The business' upturn in trading, which started in April 2016, has continued. The instalment debtors' book increased by 12% over the comparative period and the quality of the book remained good throughout the period.

Whilst the business has increased focus on locally manufactured products, foreign payments remain a challenge not only for the business' imported products, but also for its local suppliers for their imported content. The business has however managed to maintain consistent supply of products by forging various proactive relationships with its merchandise and service providers' partnerships.

TVSH continues to grow by taking advantage of available opportunities adding a new store in Mutare in December and committing to three new stores in Harare during the second half of the financial year.

#### Transerv

Transerv suffered a 7% decline in revenue over the comparative period. The business was affected by the supply of key stocks, particularly batteries in the first quarter due to delays in obtaining import permits. This however started improving towards the end of this reporting period. Notwithstanding the controlled overheads during the period, reduced margins from lost sales and transaction costs resulted in a drop in operating profit of 29% on the comparative period. Transerv maintained its current network of outlets, as at previous financial year end, being 24 trading outlets, 14 Fitment Centers, a diesel pump room (ADCO) and a Clutch and Brake Specialists (CBS). Management will continuously focus on cost reduction and procuring the right stock mix in order to protect margins and profitability. Transerv scooped the 'Motor Spares Retailer of the Year' award at the Zimbabwe's Retailers and Wholesalers Awards organised by the Confederation of Zimbabwe Retailers in November 2016.

#### Distribution Group Africa Zimbabwe

The Zimbabwean operations performed well despite issues of import permits and settling foreign suppliers. The business recorded volume growth of 32% resulting in a 23% revenue growth over the comparative period. This growth was largely attributable to the acquisition of new distributorship agencies during the period under review. To mitigate the risk of import permits, the group has increased local business although the margins are lower. As a result, the current year gross margin was 9% lower than that achieved in the comparative period. Operating profit was down 12% from prior year as a result of the rental income that is no longer receivable from SPAR Distribution as it was sold by Innscor Africa Limited in the second half of the last financial year. Management is in pursuit of accessing other revenue streams to cover overheads. The business is looking at working with local manufacturers with a view to producing certain imported products locally under license. DGA (Zimbabwe and Region) was named as the 2016 'Johnson & Johnson – Distributor of the year in Africa' and the 2016 'Colgate Palmolive Best modern Trade Distributor in Africa', as well as a couple of other Colgate Palmolive awards.

#### Distribution Group Africa Region

The regional operations posted a subdued set of results with turnover and operating profit declining by 11% and 57% respectively from prior year. This was mainly attributed to the harsh economic environment in both the Zambian and Malawian economies triggered by weak currencies and declining consumer disposable income. DGA has effected management changes in both countries with the objective to grow the businesses in the near future. Some improvements were noticed in Malawi and management is confident that a better set of results can be achieved by year end.

### PROSPECTS

The current environment will necessitate the Group taking action in managing resource allocation proactively, settling high risk foreign creditors and managing relationships with suppliers of goods and financial services with regards to efficient sourcing of, and payment for, inventories. The Group remains confident and will continue to operate profitably despite the tough trading environment. The focus will be on revenue generation, increasing vigilance on trade receivables collection, securing inventory to ensure adequate offering to customers and managing costs to protect profitability. The Group will pursue the objective of retailing quality products and providing exceptional service to the satisfaction of its customers.

### DIVIDEND

The Board has declared an interim dividend of 0.24 US cents per share in respect of all ordinary shares of the Company. The dividend is in respect of the interim period ended 31 December 2016 and will be payable in full to all shareholders of the Company registered at close of business on the 7th of April 2017. The payment of this dividend will take place on or about the 20th of April 2017. The shares of the Company will be traded cum-dividend on the Zimbabwe Stock Exchange up to the market day of 31st of March and ex-dividend as from the 3rd of April 2017.

The Board has also declared a dividend totaling US$64,900 to the Axia Employee Share Trust (Private) Limited.

### APPRECIATION

I wish to record my appreciation to the Board of Directors, executives, management and staff for their efforts during the period under review. I also wish to thank the Group's customers, suppliers and other stakeholders for their continued support and loyalty.

L E M NGWERUME
Chairman
28 February 2017

## ABRIDGED GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the 6 months ended 31 December 2016

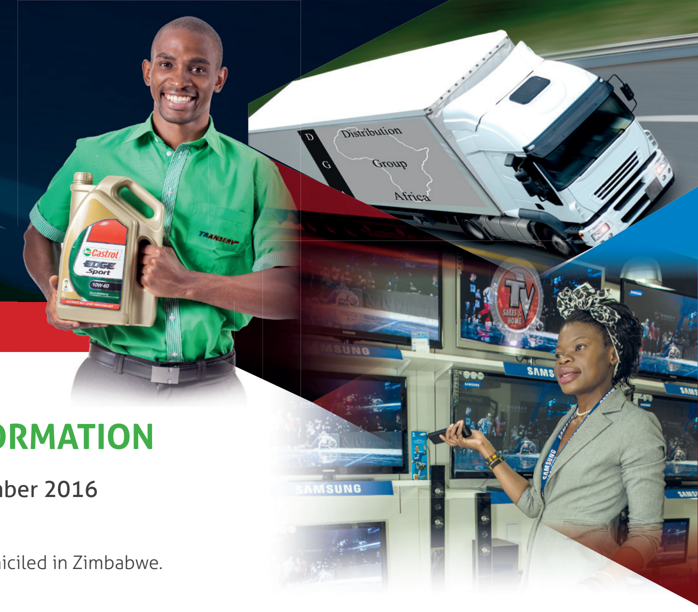
| | 6 Months Ended 31 Dec 2016 unaudited USD | Proforma 6 Months Ended 31 Dec 2015 reviewed USD |
|---|---|---|
| **Revenue** | **119 528 657** | **104 455 611** |
| **Operating profit before depreciation, amortisation and fair value adjustments** | **11 154 336** | **11 597 028** |
| financial income | 513 374 | 1 897 370 |
| depreciation and amortisation | (805 561) | (726 400) |
| **Operating profit before interest, equity accounted earnings and fair value adjustments** | **10 862 149** | **12 767 998** |
| fair value adjustments on listed equities | 52 979 | (29 406) |
| **Profit before interest and tax** | **10 915 128** | **12 738 592** |
| net interest expense | (258 093) | (135 486) |
| equity accounted earnings | 32 737 | 28 036 |
| **Profit before tax** | **10 689 772** | **12 631 142** |
| tax expense | (2 854 216) | (3 233 259) |
| **Profit for the period** | **7 835 556** | **9 397 883** |
| **Other comprehensive income - to be recycled to profit or loss** | | |
| exchange differences arising on the translation of foreign operations | 71 210 | (1 554 933) |
| **Other comprehensive income for the year, net of tax** | **71 210** | **(1 554 933)** |
| **Total comprehensive income for the period** | **7 906 766** | **7 842 950** |
| **Profit for the period attributable to:** | | |
| equity holders of the parent | 4 033 608 | 4 519 953 |
| non-controlling interests | 3 801 948 | 4 877 930 |
| | **7 835 556** | **9 397 883** |
| **Total comprehensive income for the period attributable to:** | | |
| equity holders of the parent | 4 068 789 | 3 750 522 |
| non-controlling interests | 3 837 977 | 4 092 428 |
| | **7 906 766** | **7 842 950** |
| **Earnings per share (cents)** | | |
| Basic earnings per share | **0.74** | **0.83** |
| Headline earnings per share | **0.74** | **0.72** |
| Diluted earnings per share | **0.74** | **0.83** |
| Diluted headline earnings per share | **0.74** | **0.72** |

AXIA CORPORATION LIMITED

# Unaudited Financial Results

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

AXIA CORPORATION LIMITED




## ABRIDGED GROUP STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

| | 6 Months Ended 31 Dec 2016 unaudited USD | At 30 June 2016 reviewed USD |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| property, plant and equipment | 8 579 660 | 8 721 952 |
| intangible assets | 4 227 110 | 4 223 310 |
| investments in associates | 1 515 086 | 1 450 598 |
| deferred tax assets | 1 178 826 | 872 857 |
| | **15 500 682** | **15 268 717** |
| **Current assets** | | |
| financial assets | 521 269 | 116 964 |
| inventories | 40 263 092 | 32 419 610 |
| trade and other receivables | 48 637 717 | 43 722 239 |
| cash and cash equivalents | 15 828 650 | 13 717 844 |
| | **105 250 728** | **89 976 657** |
| **Total assets** | **120 751 410** | **105 245 374** |
| **EQUITY AND LIABILITIES** | | |
| **Capital and reserves** | | |
| ordinary share capital | 54 159 | 54 159 |
| non-distributable reserves | (2 691 754) | (2 726 935) |
| distributable reserves | 34 917 969 | 31 168 659 |
| **Attributable to equity holders of parent** | **32 280 374** | **28 495 883** |
| non-controlling interests | 22 403 441 | 21 204 211 |
| **Total shareholders' equity** | **54 683 815** | **49 700 094** |
| **Non-current liabilities** | | |
| deferred tax liabilities | 2 212 325 | 1 734 862 |
| interest-bearing borrowings | 3 055 491 | 3 735 511 |
| | **5 267 816** | **5 470 373** |
| **Current liabilities** | | |
| interest-bearing borrowings | 16 581 739 | 14 838 839 |
| trade and other payables | 41 461 552 | 33 064 919 |
| provisions and other liabilities | 963 654 | 897 804 |
| current tax liabilities | 1 792 834 | 1 273 345 |
| | **60 799 779** | **50 074 907** |
| **Total liabilities** | **66 067 595** | **55 545 280** |
| **Total equity and liabilities** | **120 751 410** | **105 245 374** |

## ABRIDGED GROUP STATEMENT OF CASH FLOWS

for the 6 months ended 31 December 2016

| | 6 Months Ended 31 Dec 2016 unaudited USD | Proforma 6 Months Ended 31 Dec 2015 reviewed USD |
|---|---|---|
| **Cash generated from operations** | **7 288 379** | **4 642 400** |
| net interest paid | (258 093) | (135 486) |
| tax paid | (2 185 797) | (2 305 009) |
| **Net cash generated from operating activities** | **4 844 489** | **2 201 905** |
| **Investing activities** | **(868 577)** | **1 078 164** |
| **Net cash inflow before financing activities** | **3 975 912** | **3 280 069** |
| **Financing activities** | **(1 865 106)** | **(895 742)** |
| **Increase in cash and cash equivalents** | **2 110 806** | **2 384 327** |
| **Cash and cash equivalents at the beginning of the period** | **13 717 844** | **8 689 039** |
| **Cash and cash equivalents at the end of the period** | **15 828 650** | **11 073 366** |

## ABRIDGED GROUP STATEMENT OF CHANGES IN EQUITY

for the 6 months ended 31 December 2016

| | Ordinary Share Capital USD | Non-Distributable Reserves USD | Distributable Reserves USD | Attributable to Equity holders of the Parent USD | Non-Controlling Interests USD | Total USD |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2016** | **54 159** | **(2 726 935)** | **31 168 659** | **28 495 883** | **21 204 211** | **49 700 094** |
| Profit for the period | — | — | 4 033 608 | 4 033 608 | 3 801 948 | 7 835 556 |
| Other comprehensive income | — | 35 181 | — | 35 181 | 36 029 | 71 210 |
| Dividends paid | — | — | (284 298) | (284 298) | (2 399 711) | (2 684 009) |
| Transactions with owners in their capacity as owners | — | — | — | — | (239 036) | (239 036) |
| **Balance at 31 December 2016** | **54 159** | **(2 691 754)** | **34 917 969** | **32 280 374** | **22 403 441** | **54 683 815** |

## SUPPLEMENTARY INFORMATION

for the 6 months ended 31 December 2016

**1 Corporate Information**

The Company is incorporated and domiciled in Zimbabwe.

**2 Operating Segments**

| | Zimbabwe USD | Region USD | Intersegment adjustments USD | Total USD |
|---|---|---|---|---|
| **Revenue** | | | | |
| 31 December 2016 | 106 605 747 | 12 922 910 | — | 119 528 657 |
| 31 December 2015 | 89 959 284 | 14 496 327 | — | 104 455 611 |
| **Operating profit before depreciation and amortisation** | | | | |
| 31 December 2016 | 10 784 686 | 369 650 | — | 11 154 336 |
| 31 December 2015 | 10 734 322 | 862 706 | — | 11 597 028 |
| **Depreciation and amortisation** | | | | |
| 31 December 2016 | 725 823 | 79 738 | — | 805 561 |
| 31 December 2015 | 646 675 | 79 725 | — | 726 400 |
| **Equity accounted earnings** | | | | |
| 31 December 2016 | 32 737 | — | — | 32 737 |
| 31 December 2015 | 28 036 | — | — | 28 036 |
| **Profit before tax** | | | | |
| 31 December 2016 | 10 424 572 | 265 200 | — | 10 689 772 |
| 31 December 2015 | 11 927 901 | 703 241 | — | 12 631 142 |
| **Segment assets** | | | | |
| 31 December 2016 | 105 413 400 | 15 444 890 | (106 880) | 120 751 410 |
| 30 June 2016 | 92 494 091 | 12 805 523 | (54 240) | 105 245 374 |
| **Segment liabilities** | | | | |
| 31 December 2016 | 55 870 150 | 10 304 325 | (106 880) | 66 067 595 |
| 30 June 2016 | 47 707 044 | 7 892 476 | (54 240) | 55 545 280 |
| **Capital expenditure** | | | | |
| 31 December 2016 | 596 485 | 46 697 | — | 643 182 |
| 31 December 2015 | 865 803 | 242 575 | — | 1 108 378 |

| | | 6 Months Ended 31 Dec 2016 unaudited USD | Proforma 6 Months Ended 31 Dec 2015 reviewed USD |
|---|---|---|---|
| 3 | **Capital expenditure for the period** | 643 182 | 1 108 378 |
| 4 | **Future lease commitments** | | |
| | Payable within one year | 3 603 695 | 1 963 972 |
| | Payable two to five years | 8 220 517 | 5 728 709 |
| | Payable after five years | 154 508 | 154 508 |
| | | **11 978 720** | **7 847 189** |
| 5 | **Commitments for capital expenditure** | | |
| | Contracts and orders placed | — | — |
| | Authorised by Directors but not contracted | 3 797 957 | 2 453 506 |
| | | **3 797 957** | **2 453 506** |

The capital expenditure is to be financed out of the Group's own resources and existing borrowing facilities.

| | | | |
|---|---|---|---|
| 6 | **Security** | | |
| | Net book value of motor vehicles pledged as security for interest-bearing borrowings | 220 694 | 250 000 |

**7** Interest-bearing borrowings constitute bank loans from various financial institutions. The average cost of borrowings for the Axia Group operations in Zimbabwe is 6.7% per annum, whilst it is 15% per annum for Regional operations. The facilities expire at different dates and will be reviewed and renewed as they mature.

**8 Earnings per share**

**Basic earnings basis**

The calculation is based on the profit attributable to equity holders of the parent and the weighted average number of ordinary shares in issue for the period.

**Fully diluted earnings basis**

The calculation is based on the profit attributable to equity holders of the parent and the weighted average number of ordinary shares in issue after adjusting to assume conversion of share options, only if the average market price of ordinary shares during the period exceeds the exercise price of such options.

The share options had no dilutive effect at the end of the financial period.

**Headline earnings basis**

Headline earnings comprise of basic earnings attributable to equity holders of the parent adjusted for profits, losses and items of a capital nature that do not form part of the ordinary activities of the Group, net of their related tax effects and share of non-controlling interests as applicable.

| | 6 Months Ended 31 Dec 2016 unaudited USD | 6 Months Ended 31 Dec 2015 reviewed USD |
|---|---|---|
| **Reconciliation of basic earnings to headline earnings:** | | |
| Profit for the period attributable to equity holders of the parent | 4 033 608 | 4 519 953 |
| Adjustment for capital items (gross of tax): | | |
| Profit on disposal of equipment | (9 530) | (51 787) |
| Profit on disposal of subsidiary | — | (1 524 137) |
| Tax effect on adjustments | 2 454 | 334 935 |
| Non-controlling interests' share of adjustments | 1 452 | 614 205 |
| **Headline earnings attributable to ordinary shareholders** | **4 027 984** | **3 893 169** |
| **Number of shares in issue** | | |
| Number of ordinary shares in issue | 541 593 440 | 541 593 440 |
| Weighted average number of ordinary shares in issue | 541 593 440 | 541 593 440 |
| Basic earnings per share (cents) | 0.74 | 0.83 |
| Headline earnings per share (cents) | 0.74 | 0.72 |
| Diluted basic earnings per share (cents) | 0.74 | 0.83 |
| Diluted headline earnings per share (cents) | 0.74 | 0.72 |

**9 Events after the reporting date**

There have been no significant events after reporting date at the time of issuing this press release.

**10 Contingent liabilities**

The Group had no contingent liabilities as at 31 December 2016.